

# **MAGARENG**

## **MUNICIPALITY**



[These financial statements have not been audited]

### **FINANCIAL STATEMENTS**

### **30 JUNE 2015**

# MAGARENG LOCAL MUNICIPALITY

## Index

<b>Contents</b>	<b>Page</b>
General Information	1
Approval of the Financial Statements	2
Report of the Auditor General	
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes In Net Assets	5
Cash Flow Statement	6
Statement of comparison of budget and actual amounts - Statement of financial position	7 - 8
Statement of comparison of budget and actual amounts - Statement of financial performance	9 - 10
Statement of comparison of budget and actual amounts - Cash flow statement	11 - 12
Accounting Policies	13 - 42
Notes to the Financial Statements	43 - 76
<b>APPENDICES - Unaudited</b>	
A Schedule of External Loans	77
B Segmental Statement of Financial Performance - Municipal Votes	78
C Segmental Statement of Financial Performance	79
D Disclosure of Grants and Subsidies In Terms of Section 123 of MFMA, 56 of 2003	80

# MAGARENG LOCAL MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

	Notes	2015 R (Actual)	2014 R (Restated)
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>203 055 516</b>	<b>233 801 080</b>
Accumulated Surplus/(Deficit)		203 055 516	233 801 080
<b>Non-Current Liabilities</b>		<b>20 877 674</b>	<b>10 469 908</b>
Long-term Liabilities		-	323 964
Employee benefits	2	10 394 337	8 725 186
Non-Current Provisions	3	6 534 337	1 420 758
Non-Current Payables	4	3 949 000	-
	7		
<b>Current Liabilities</b>		<b>76 466 960</b>	<b>63 644 712</b>
Consumer Deposits		666 660	617 683
Current Employee benefits	5	3 407 313	3 295 791
Payables from exchange transactions	6	57 934 949	39 778 271
Unspent Conditional Government Grants and Receipts	7	14 134 074	19 831 566
Current Portion of Long-term Liabilities	8	323 964	121 401
	2		
<b>Total Net Assets and Liabilities</b>		<b>300 400 150</b>	<b>307 915 699</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>268 825 887</b>	<b>276 239 426</b>
Property, Plant and Equipment		256 553 706	268 851 742
Investment Property	10	6 770 544	6 812 274
Intangible Assets	11	316 806	395 953
Heritage Assets	12	-	-
Capitalised Restoration Costs	13	5 184 832	179 457
	14		
<b>Current Assets</b>		<b>31 574 263</b>	<b>31 676 273</b>
Inventory		71 280	415 738
Receivables from exchange transactions	15	2 526 306	12 646 793
Receivables from non-exchange transactions	16	2 025 046	1 624 114
Unpaid Conditional Government Grants and Receipts	17	2 070 144	-
Operating Lease Asset	8	24 114	22 308
Taxes	18	20 355 350	16 087 759
Cash and Cash Equivalents	9	4 502 023	879 561
	19		
<b>Total Assets</b>		<b>300 400 150</b>	<b>307 915 699</b>

**MAGARENG LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015**

	Notes	2015 (Actual) R	2014 (Restated) R	Correction of error R	2014 (Previously reported) R
<b>REVENUE</b>					
Revenue from Non-exchange Transactions		65 089 047	60 160 626	-	60 160 626
Taxation Revenue		4 725 901	4 522 649	-	4 522 649
Property taxes	20	4 725 901	4 522 649	-	4 522 649
Transfer Revenue		60 299 794	48 336 909	-	48 336 909
Government Grants and Subsidies	21	60 299 794	48 336 909	-	48 336 909
Other Revenue		63 352	7 301 068	-	7 301 068
Actuarial Gains	3	-	208 435	-	208 435
Contributed PPE		-	6 890 172	-	6 890 172
Fines		63 352	202 461	-	202 461
Revenue from Exchange Transactions		35 527 829	30 957 518	-	30 957 518
Service Charges	22	29 322 808	24 097 138	-	24 097 138
Rental of Facilities and Equipment		29 504	52 995	-	52 995
Interest Earned - external investments		171 384	240 183	-	240 183
Interest Earned - outstanding debtors		5 444 576	5 199 344	-	5 199 344
Licences and Permits		347 411	397 060	-	397 060
Other Income	23	212 146	970 798	-	970 798
<b>Total Revenue</b>		<b>100 616 876</b>	<b>91 118 144</b>	<b>-</b>	<b>91 118 144</b>
<b>EXPENDITURE</b>					
Employee related costs	24	30 426 859	27 695 418	-	27 695 418
Remuneration of Councillors	25	2 324 459	2 893 209	-	2 893 211
Debt Impairment	26	23 035 332	2 637 393	-	2 637 393
Depreciation and Amortisation	27	30 323 493	30 108 065	10 481 716	19 626 349
Repairs and Maintenance		2 734 499	3 601 951	1 000 000	2 601 951
Actuarial losses	3	499 166	366 429	-	366 429
Finance Charges	28	1 083 002	992 194	-	992 194
Bulk Purchases	29	26 075 891	16 626 554	-	16 626 554
Contracted services	30	2 481 737	3 301 819	1 842 242	1 459 577
Stock Adjustments	29	-	2 133 809	-	2 133 809
Operating Grant Expenditure	31	-	-	(3 042 182)	3 042 182
General Expenses	32	12 377 997	15 707 689	199 940	15 507 749
<b>Total Expenditure</b>		<b>131 362 435</b>	<b>106 064 530</b>	<b>10 481 716</b>	<b>95 582 816</b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(30 745 559)</b>	<b>(14 946 386)</b>	<b>(10 481 716)</b>	<b>(4 464 672)</b>



# MAGARENG LOCAL MUNICIPALITY

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2015

	Accumulated Surplus/ (Deficit)	Total
	R	R
<b>Balance at 30 JUNE 2013</b>	<b>322 795 733</b>	<b>322 795 733</b>
Correction of error - Refer to note 33.03	(74 048 274)	(74 048 274)
<b>Restated Balance at 1 JULY 2013</b>	<b>248 747 460</b>	<b>248 747 460</b>
Net Deficit for the year	(4 464 672)	(4 464 672)
Correction of error - Refer to note 33.04	(10 481 716)	(10 481 716)
Rounding	8	(8)
<b>Balance at 30 JUNE 2014</b>	<b>233 801 080</b>	<b>233 801 064</b>
Net Deficit for the year	(30 745 559)	(30 745 559)
Rounding	(5)	5
<b>Balance at 30 JUNE 2015</b>	<b>203 055 516</b>	<b>203 055 510</b>

# MAGARENG LOCAL MUNICIPALITY

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

		30 JUNE 2015 (Actual) R	30 JUNE 2014 (Restated) R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>Notes</b>		
<b>Receipts</b>			
Ratepayers and other		15 685 664	14 153 808
Government		52 532 159	57 006 569
Interest		5 615 960	5 439 527
<b>Payments</b>			
Suppliers and employees		(55 136 203)	(63 801 589)
Finance charges	28	(1 083 002)	(992 194)
<b>Cash generated by operations</b>	<b>34</b>	<b>17 614 578</b>	<b>11 806 122</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	10	(17 868 689)	(10 919 027)
<b>Net Cash from Investing Activities</b>		<b>(17 868 689)</b>	<b>(10 919 027)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Loans repaid		(121 401)	(111 618)
New agreements raised		3 949 000	-
Increase in Consumer Deposits		48 977	33 314
Rounding		(3)	6
<b>Net Cash from Financing Activities</b>		<b>3 876 573</b>	<b>(78 298)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>3 622 462</b>	<b>808 797</b>
Cash and Cash Equivalents at the beginning of the year		879 561	70 764
Cash and Cash Equivalents at the end of the year	35	4 502 023	879 561
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>3 622 462</b>	<b>808 797</b>

**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2015 R (Actual)	2015 R (Final Budget)	2015 R (Variance)	Explanations for material variances
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	4 279 081	500 000	3 779 081	
Call investment deposits	222 942	2 200 000	(1 977 058)	More grants unspent than expected
Consumer debtors	3 992 165	12 441 626	(8 449 461)	More grants unspent than expected
Other Receivables	20 938 651	1 000 000	19 938 651	Bigger provision for debt impairment
Current portion of long-term receivables	-	6 000 000	(6 000 000)	Taxes (VAT)
Inventory	71 280	1 000 000	(928 720)	No long term receivables
<b>Total current assets</b>	<b>29 504 119</b>	<b>23 141 626</b>	<b>6 362 493</b>	Only water stock at year end
<b>Non current assets</b>				
Long-term receivables	-	-	-	
Investments	-	-	-	
Investment property	6 770 544	7 229 011	(458 467)	No purchases in investment properties
Property, plant and equipment	261 738 538	250 636 160	11 102 377	Restate PPE balances
Biological Assets	-	-	-	
Intangible Assets	316 806	762 743	(445 937)	No purchases in intangible assets
Heritage Assets	-	-	-	
<b>Total non current assets</b>	<b>268 825 887</b>	<b>258 627 914</b>	<b>10 197 973</b>	
<b>TOTAL ASSETS</b>	<b>298 330 007</b>	<b>281 769 540</b>	<b>16 560 466</b>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft	-	-	-	
Borrowing	323 964	-	323 964	Mayor Vehicle
Consumer deposits	666 860	584 370	82 290	More municipal accounts opened
Trade and other payables	72 069 023	56 000 000	16 069 023	Cash flow problems
Provisions and Employee Benefits	3 407 313	-	3 407 313	Included in Trade and other payables
<b>Total current liabilities</b>	<b>76 466 960</b>	<b>56 584 370</b>	<b>19 882 590</b>	
<b>Non current liabilities</b>				
Borrowing	-	-	-	
Provisions and Employee Benefits	16 928 674	9 981 952	6 946 722	Landfill provision increase due to additional legislative requirements with rehabilitation.
<b>Total non current liabilities</b>	<b>16 928 674</b>	<b>9 981 952</b>	<b>6 946 722</b>	
<b>TOTAL LIABILITIES</b>	<b>93 395 634</b>	<b>66 566 322</b>	<b>26 829 312</b>	
<b>NET ASSETS</b>	<b>93 395 634</b>	<b>215 203 218</b>	<b>(121 807 584)</b>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	203 055 516	215 203 218	(12 147 702)	Net of above mentioned reasons
Reserves	-	-	-	
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>203 055 516</b>	<b>215 203 218</b>	<b>(12 147 702)</b>	

**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015**

**ADJUSTMENTS TO APPROVED BUDGET**

	2015 R	2015 R	2015 R	Explanations for material adjustments
	(Approved Budget)	(Adjustments)	(Final Budget)	
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	500 000	-	500 000	
Call investment deposits	2 200 000	-	2 200 000	
Consumer debtors	12 441 626	-	12 441 626	
Other Receivables	1 000 000	-	1 000 000	
Current portion of long-term receivables	6 000 000	-	6 000 000	
Inventory	1 000 000	-	1 000 000	
<b>Total current assets</b>	<b>23 141 626</b>	<b>-</b>	<b>23 141 626</b>	
<b>Non current assets</b>				
Long-term receivables	-	-	-	
Investments	-	-	-	
Investment property	7 229 011	-	7 229 011	
Property, plant and equipment	250 636 160	-	250 636 160	
Biological Assets	-	-	-	
Intangible Assets	-	-	-	
Heritage Assets	762 743	-	762 743	
<b>Total non current assets</b>	<b>258 627 914</b>	<b>-</b>	<b>258 627 914</b>	
<b>TOTAL ASSETS</b>	<b>281 769 540</b>	<b>-</b>	<b>281 769 540</b>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft	-	-	-	
Borrowing	-	-	-	
Consumer deposits	584 370	-	584 370	
Trade and other payables	56 000 000	-	56 000 000	
Provisions and Employee Benefits	-	-	-	
<b>Total current liabilities</b>	<b>56 584 370</b>	<b>-</b>	<b>56 584 370</b>	
<b>Non current liabilities</b>				
Borrowing	-	-	-	
Provisions and Employee Benefits	9 981 952	-	9 981 952	
<b>Total non current liabilities</b>	<b>9 981 952</b>	<b>-</b>	<b>9 981 952</b>	
<b>TOTAL LIABILITIES</b>	<b>66 566 322</b>	<b>-</b>	<b>66 566 322</b>	
<b>NET ASSETS</b>	<b>215 203 218</b>	<b>-</b>	<b>215 203 218</b>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	215 203 218	-	215 203 218	
Reserves	-	-	-	
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>215 203 218</b>	<b>-</b>	<b>215 203 218</b>	



**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

REVENUE BY SOURCE	2015 R (Actual)	2015 R (Final Budget)	2015 R (Variance)	Explanations for material variances
Property rates	4 725 901	4 997 563	(171 662)	
Property rates - penalties & collection charges	-	700 000	(700 000)	
Service charges	29 322 808	31 497 579	(2 174 771)	Economic climate restricted consumption
Rental of facilities and equipment	29 504	30 000	(496)	
Interest earned - external investments	171 394	323 302	(151 918)	Cash flow in less investments
Interest earned - outstanding debtors	5 444 576	6 635 000	(1 190 424)	Economic climate restricted consumption
Dividends received	-	-	-	
Fines	63 352	158 750	(95 398)	Less enforcement of traffic laws
Licences and permits	347 411	438 500	(91 089)	Less licenses issued and renewed
Agency services	-	6 250	(6 250)	
Government Grants and Subsidies - Operating	42 464 307	30 328 692	12 135 615	Forfeited grants was funded by equitable share
Other revenue	212 146	1 414 951	(1 202 805)	Expected movement due to previous year other income
Gains on disposal of PPE	-	200 000	(200 000)	No disposals during the year
<b>Total Operating Revenue</b>	<b>82 781 389</b>	<b>76 630 587</b>	<b>6 150 802</b>	
EXPENDITURE BY TYPE				
Employee related costs	30 426 859	32 690 687	(2 263 828)	None implementation of traveling allowance to managers
Remuneration of councillors	2 324 459	3 119 260	(794 801)	None implementation of upper limits for council
Debt impairment	23 035 332	18 852 959	4 182 373	Bigger provision than expected
Depreciation & asset impairment	30 323 493	11 186 314	19 137 179	Restatement of Assets
Finance charges	1 083 002	100 000	983 002	Not provided for Actuarial interest and Landfill site interest
Bulk purchases	26 075 891	13 839 713	12 236 178	Cash flow problems
Other materials	-	-	-	
Contracted services	2 481 737	2 177 500	304 237	Cost cutting
Grants and subsidies paid	-	6 761 000	(6 761 000)	Actual was moved between other line items
Other expenditure	15 611 662	17 134 848	(1 523 186)	Cost cutting
Loss on disposal of PPE	-	-	-	
<b>Total Operating Expenditure</b>	<b>131 362 435</b>	<b>105 862 279</b>	<b>25 500 156</b>	
<b>Operating Deficit for the year</b>	<b>(48 581 046)</b>	<b>(29 231 692)</b>	<b>(19 349 354)</b>	
Government Grants and Subsidies - Capital	17 835 487	21 487 000	(3 651 513)	Forfeited grants was funded by equitable share
<b>Net Deficit for the year</b>	<b>(30 745 559)</b>	<b>(7 744 692)</b>	<b>(23 000 867)</b>	

**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015**  
**ADJUSTMENTS TO APPROVED BUDGET**

REVENUE BY SOURCE	2015 R (Approved Budget)	2015 R (Adjustments)	2015 R (Final Budget)	Reasons for material adjustments
Property rates	4 897 563	-	4 897 563	
Property rates - penalties & collection charges	1 000 000	(300 000)	700 000	Less interest charged on rates than expected
Service charges	29 455 356	2 042 223	31 497 579	More services levied
Rental of facilities and equipment	60 000	(30 000)	30 000	Less activities
Interest earned - external investments	1 003 500	(680 198)	323 302	Cash flow in less investments
Interest earned - outstanding debtors	6 490 000	145 000	6 635 000	
Dividends received	-	-	-	
Fines	1 012 500	(853 750)	158 750	
Licences and permits	426 500	12 000	438 500	Less enforcement of traffic laws
Agency services	12 500	(6 250)	6 250	
Government Grants and Subsidies - Operating	39 351 000	(9 022 308)	30 328 692	Forfeited grants
Other revenue	618 500	796 451	1 414 951	Expected movement due to previous year other income
Gains on disposal of PPE	1 987 630	(1 787 630)	200 000	Expected limited disposals
<b>Total Operating Revenue</b>	<b>86 315 049</b>	<b>(9 684 462)</b>	<b>76 630 587</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	33 857 392	(1 166 705)	32 690 687	
Remuneration of councillors	3 119 260	-	3 119 260	None implementation of traveling allowance to managers
Debt impairment	18 852 959	-	18 852 959	
Depreciation & asset impairment	11 186 314	-	11 186 314	
Finance charges	100 000	-	100 000	
Bulk purchases	16 739 713	(2 900 000)	13 839 713	Planned less purchases due to cash flow
Other materials	-	-	-	
Contracted services	2 842 000	(664 500)	2 177 500	Cost cutting
Grants and subsidies paid	6 761 000	-	6 761 000	
Other expenditure	21 829 507	(4 694 658)	17 134 848	Cost cutting
Loss on disposal of PPE	-	-	-	
<b>Total Operating Expenditure</b>	<b>115 288 143</b>	<b>-9 425 864</b>	<b>105 862 279</b>	
<b>Operating Deficit for the year</b>	<b>(28 973 094)</b>	<b>(258 598)</b>	<b>(29 231 692)</b>	
Government Grants and Subsidies - Capital	22 287 000	(800 000)	21 487 000	
<b>Net Deficit for the year</b>	<b>(6 686 094)</b>	<b>(1 058 598)</b>	<b>(7 744 692)</b>	

**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2015 R (Actual)	2015 R (Final Budget)	2015 R (Variance)	Explanations for material variances
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Receipts				
Ratepayers and other	15 685 664	27 535 706	(11 850 042)	Net reasons on Financial Performance (Income)
Government - operating	27 874 926	30 328 692	(2 453 766)	Forfeited grants was funded by equitable share
Government - capital	24 657 233	21 487 000	3 170 233	Forfeited grants was funded by equitable share
Interest	5 615 960	6 958 302	(1 342 342)	Economic climate restricted consumption
Dividends				
Payments				
Suppliers and Employees	(55 136 203)	(68 655 316)	13 520 113	Net reasons on Financial Performance (Expenditure)
Finance charges	(1 083 002)	(100 000)	(983 002)	Not provided for Actuarial interest and Landfill site interest
Transfers and Grants		(6 963 000)	6 963 000	Forfeited grants was funded by equitable share
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>17 614 578</b>	<b>10 590 384</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts				
Proceeds on disposal of Assets		200 000	(200 000)	No disposals during the year
Decrease/(increase) in non-current receivables				
Decrease/(increase) in non-current investments				
Payments				
Capital assets	(17 868 689)	(21 487 000)	3 618 311	Forfeited grants
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>-17 868 689</b>	<b>(21 287 000)</b>	<b>3 418 311</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts				
Borrowing				
Increase/(decrease) in consumer deposits	(121 401)		(121 401)	
Repayment of borrowing	48 977		48 977	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(72 424)</b>		<b>-72 424</b>	
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(326 535)</b>	<b>(10 696 616)</b>	<b>3 345 887</b>	
Cash and Cash Equivalents at the beginning of the year	879 561	2 863 020	(1 983 459)	Unspent Grants
Cash and Cash Equivalents at the end of the year	4 502 023	(7 833 596)	12 335 619	Unspent Grants

**MAGARENG LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2015 R (Approved Budget)	2015 R (Adjustments)	2015 R (Final Budget)	Reasons for material adjustments
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Receipts				
Ratepayers and other	26 633 378	902 328	27 535 706	
Government - operating	39 351 000	(9 022 308)	30 328 692	Net reasons on Financial Performance (Income)
Government - capital	22 287 000	(800 000)	21 487 000	Forfeited grants
Interest	7 493 500	(535 198)	6 958 302	Forfeited grants
Dividends				
Payments				
Suppliers and Employees	(77 126 690)	8 470 374	(68 656 316)	
Finance charges	(100 000)		(100 000)	Net reasons on Financial Performance (Expenditure)
Transfers and Grants	(6 963 000)		(6 963 000)	Forfeited grants
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>11 575 188</b>	<b>-984 804</b>	<b>10 590 384</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts				
Proceeds on disposal of Assets	1 987 630	(1 787 630)	200 000	Expected limited disposals
Decrease/(increase) in non-current receivables				
Decrease/(increase) in non-current investments				
Payments				
Capital assets	(22 287 000)	800 000	(21 487 000)	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(20 299 370)</b>	<b>(987 630)</b>	<b>(21 287 000)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts				
Borrowing				
Increase/(decrease) in consumer deposits				
Repayment of borrowing				
Payments				
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>				
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(8 724 182)</b>	<b>(1 972 434)</b>	<b>(10 696 616)</b>	
Cash and Cash Equivalents at the beginning of the year	1 431 510	1 431 510	2 863 020	
Cash and Cash Equivalents at the end of the year	(7 292 672)	(540 924)	(7 833 596)	Cash flow problems



**MAGARENG MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

**1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

**1.3. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

**1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current

## **MAGARENG MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.5 AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

#### **1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

#### **1.7. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2014 to 30 June 2015. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

the approved and final budget amounts;  
actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included the Statement of Comparison of Budget and Actual Amounts.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

#### **1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:



**MAGARENG MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

Standard	Description	Effective Date
Directive 11	<p><b>Changes in Measurement Bases following Initial Adoption of Standards of GRAP</b></p> <p>This Directive can be applied when a Municipality elects to change the measurement bases selected for certain assets on the initial adoption of Standards of GRAP.</p> <p>No significant impact is expected as the Municipality has no intention of changing it's measurement bases.</p>	1 April 2015
GRAP 18 (Original – Feb 2011)	<p><b>Segment Reporting</b></p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.</p>	1 April 2015
GRAP 20 (Original – June 2011)	<p><b>Related Party Disclosure</b></p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	Unknown
GRAP 32 (Original – Aug 2013)	<p><b>Service Concession Arrangements: Grantor</b></p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	Unknown
GRAP 105 (Original – Nov 2010)	<p><b>Transfer of Functions Between Entities Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such</p>	1 April 2015

**MAGARENG MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

	transactions or events are expected in the foreseeable future.	
<b>GRAP 106</b> (Original – Nov 2010)	<p><b>Transfer of Functions Between Entities Not Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<b>1 April 2015</b>
<b>GRAP 107</b> (Original – Nov 2010)	<p><b>Mergers</b></p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<b>1 April 2015</b>
<b>GRAP 108</b> (Original – Sept 2013)	<p><b>Statutory Receivables</b></p> <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>The Municipality has resolved to adopt the principles as set out in GRAP 108 to formulate its own accounting policy.</p>	<b>Unknown</b>
<b>GRAP 109</b>	<p><b>Accounting by Principles and Agents</b></p> <p>The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<b>Unknown</b>
<b>IGRAP 11</b>	<p><b>Consolidation - Special Purpose Entities (SPE)</b></p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<b>1 April 2015</b>
<b>IGRAP 12</b>	<b>Jointly Controlled Entities non-monetary</b>	<b>1 April 2015</b>



# MAGARENG MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	<p><b>contributions</b></p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venture to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	
IGRAP17	<p><b>Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset</b></p> <p>This Interpretation of the Standards provides guidance to the grantor where it has entered into a service concession arrangement, but only controls a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.</p> <p>No such transactions or events are expected in the foreseeable future.</p>	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

### 1.9. LEASES

#### 1.9.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

made will give rise to a liability. The Municipality shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

#### 1.9.2 Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality shall recognise the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

#### 1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### 1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### 1.12. UNSPENT PUBLIC CONTRIBUTIONS

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### 1.13. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

#### 1.14. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

##### (a) *Post Retirement Medical Obligations*

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

##### (b) *Long Service Awards*

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

period that it occurs. These obligations are valued annually by independent qualified actuaries.

#### (c) **Provision for Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days, limited to 48 days, due to employees at year-end and also on the total salary of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

#### (d) **Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

### 1.15. **BORROWING COSTS**

The Municipality recognises all borrowing costs as an expense in the period in which they are incurred.

### 1.16. **PROPERTY, PLANT AND EQUIPMENT**

#### 1.16.1 **Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### 1.16.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### 1.16.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Roads and Paving	5-100	Buildings	30-100
Pedestrian Malls	10-30	Specialist vehicles	3-60
Electricity	10-100	Other vehicles	3-30
Water	10-100	Office equipment	3-25
Sewerage	10-100	Furniture and fittings	2-30
Housing	30	Watercraft	15
		Bins and containers	5
<b><u>Community</u></b>		Specialised plant and	
Buildings	10-100	Equipment	3-40
Recreational Facilities	20-100	Other plant and	
Security	30	Equipment	3-40
Halls	30-100	Landfill sites	10-100
Libraries	100	Quarries	5-25
Parks and gardens	100	Emergency equipment	3-30
Other assets	10-100	Computer equipment	3-20
<b><u>Finance lease assets</u></b>			
Office equipment	3-5		
Other assets	3-5		



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

#### **1.16.4 De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.16.5 Land and buildings and Other Assets – application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2010.

### **1.17. INTANGIBLE ASSETS**

#### **1.17.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

#### 1.17.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

#### 1.17.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3-5
Computer Systems	5-10

#### 1.17.4 De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### 1.17.5 Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2010.

### 1.18. INVESTMENT PROPERTY

#### 1.18.1 Initial Recognition

Investment property shall be recognised as an asset when, and only when:



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **1.18.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

#### **1.18.3 Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	30

#### **1.18.4 Subsequent Measurement – Fair Value Model**

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is recognised in the Statement of Financial Performance for the period in which it arises.

#### **1.18.5 De-recognition**

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.18.6 Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

#### **1.19 HERITAGE ASSETS**

##### **1.19.1 Initial Recognition**

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations.

A heritage asset is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

##### **1.19.2 Subsequent Measurement – Cost Model**

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

##### **1.19.3 Subsequent Measurement – Revaluation Model**

After recognition as an asset, heritage assets are carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in Statement of Financial Performance to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in the Statement of Financial Performance.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the Statement of Financial Performance. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

##### **1.19.4 Depreciation and Impairment**

Heritage assets are not depreciated



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

#### **1.19.5 De-recognition**

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

#### **1.19.6 Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

### **1.20. IMPAIRMENT OF NON-FINANCIAL ASSETS**

#### **1.20.1 Cash-generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

#### 1.20.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

#### 1.21. NON CURRENT INVESTMENTS

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

#### 1.22. INVENTORIES

##### 1.22.1 Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories shall be recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

##### 1.22.2 Subsequent Measurement

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the weighted average method.

Water inventory is measured annually at the reporting date by way of dip readings and the calculated volume in the distribution network.

#### 1.23. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions).

##### 1.23.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

##### 1.23.2 Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

##### 1.23.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### 1.23.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### 1.23.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

#### 1.23.3 De-recognition of Financial Instruments

##### 1.23.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### 1.23.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### 1.23.4 **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

### 1.24. REVENUE

#### 1.24.1 **Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Fine revenue is recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised when monies are received, as the Municipality does not have any control over fines issued by other government institutes.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by the law.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

#### 1.24.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 2 to 3 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is regarded as not material and is not disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

#### 1.25. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2<sup>nd</sup> and 3<sup>rd</sup> bullet, or over which such a person is able to exercise significant influence.

## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

#### 1.26. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.27. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.28. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.29. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.



## MAGARENG MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

#### 1.30. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

#### 1.31. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

##### *Post retirement medical obligations, Long service awards and Ex gratia gratuities*

The cost of post retirement medical obligations, long service awards and ex-gartia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the Annual Financial Statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

##### *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

##### *Property, Plant and Equipment*

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.



## **MAGARENG MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### ***Intangible Assets***

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

#### ***Investment Property***

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based

## **MAGARENG MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015**

on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### ***Provisions and Contingent Liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### ***Revenue Recognition***

Accounting Policy 1.24.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.24.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised when monies are received, as the Municipality does not have any control over fines issued by other government institutes.

#### ***Provision for Landfill Sites***

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value of the expected future cash flows to rehabilitate the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset is charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

#### ***Provision for Staff leave***

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### ***Provision for Performance bonuses***

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.